MEMORANDUM

TO: Larry Weis, General Manager

FROM: Cheryl Mele, Chief Operating Officer

DATE: February 23, 2012

SUBJECT: Fuel Charge Increase Summary, as requested by the Electric Utility Commission

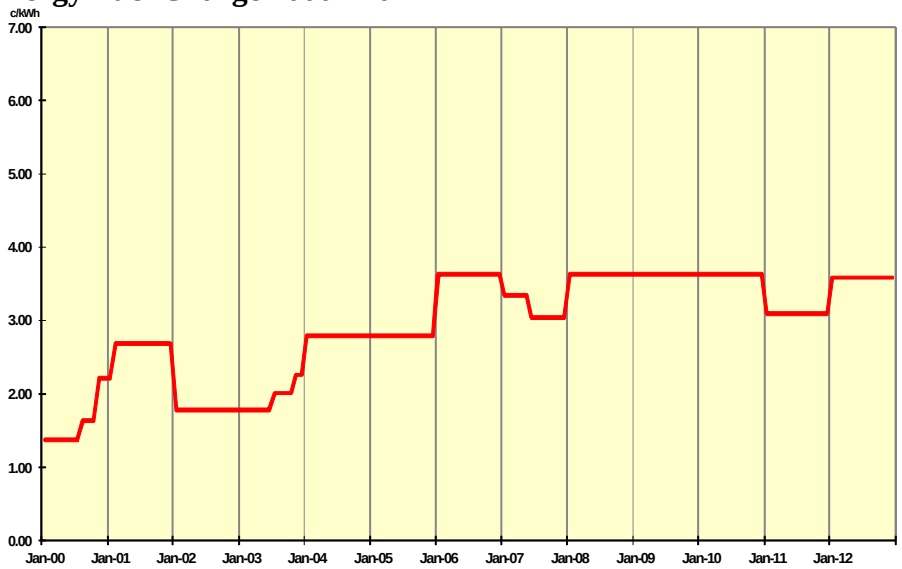
---

Effective January 1, 2012 Austin Energy increased the Fuel Charge for calendar year 2012. The Secondary Service Fuel Charge increased from 3.105 cents to 3.615 cents per kilowatt-hour (kWh) of electric use, which equates to approximately $5.10 per month on an average residence using 1,000 kWh. Primary and Transmission level Fuel Charges also increased by like amounts.

Background

The Fuel Charge is calculated by formula under a City Council approved tariff designed to recover actual and forecasted costs for fuel and power. Those costs include nuclear, coal, natural gas, market power purchases, renewable power purchases (other than those allocated to GreenChoice), along with the associated costs of transportation and hedging. The Fuel Charge also includes ERCOT wholesale market fees and charges, as well as an adjustment for the prior year over or under collection. For example, if there was an over-collection in the prior year, it is subtracted from the next year's forecasted fuel charge and subsequently if there was an under-collection in the prior year, it is added to the next year's forecasted fuel charge. The tariff requires that it be reset each January 1st; however, it may be adjusted more frequently if there is a projected over or under recovery that exceeds 10% of total projected cost (a copy of the complete Fuel Adjustment Clause is attached to this memo for further reference). Using this method, in general Austin Energy has enjoyed a relatively stable Fuel Charge over the last several years:

Austin Energy Fuel Charge 2000 - 2012



Drivers for 2012 Fuel Charge

There were three primary drivers to the need for an increase for 2012:

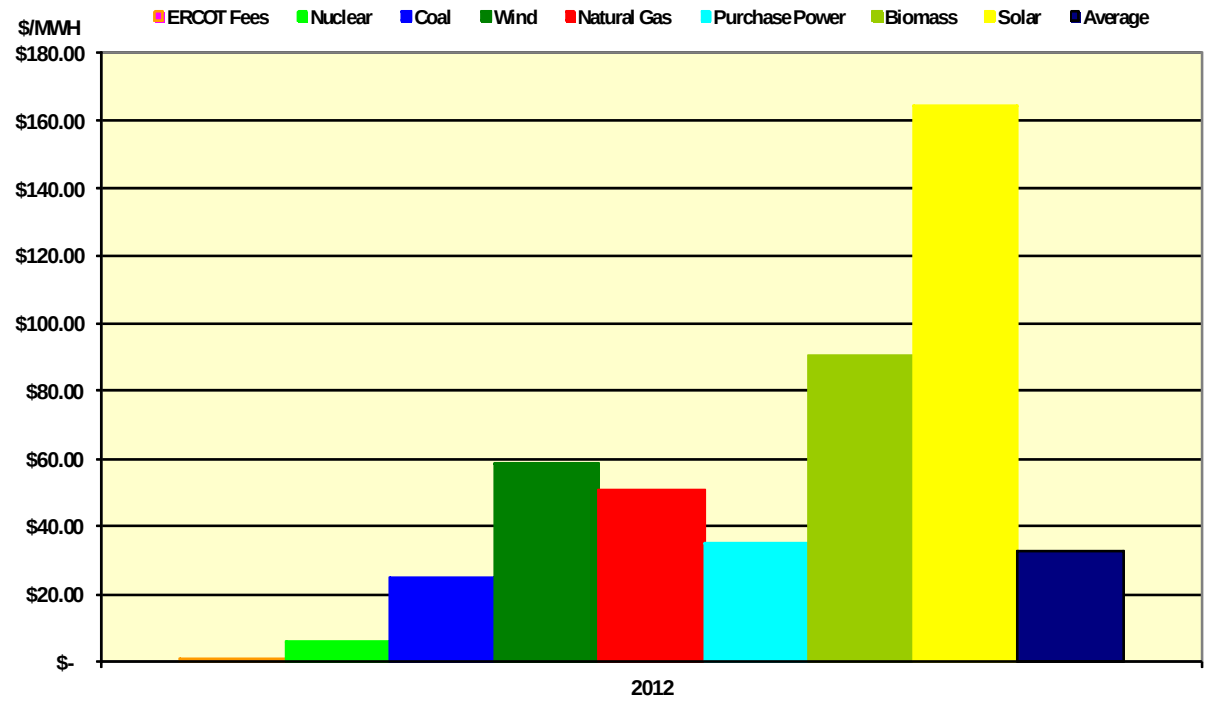
- Above Normal Load (weather related) – approximately $20 Million
- Unplanned Fayette Power Plant (FPP) Outage – $13 Million
- Unplanned South Texas Project (STP) Outage – approximately $14 Million

The first and largest contributor was above normal load for 2011. Austin, like most of Texas, experienced record heat during 2011. Austin Energy demand was approximately 5% higher overall and nearly 9% higher for the summer months compared to 2010. The Fuel Charge calculation is based on normal weather and load conditions rather than extremes. In general, above normal demand is served at higher costs from natural gas based power, particularly during summer months. While higher demand generates both additional base and Fuel Charge revenue, it was accompanied by higher cost, leading to insufficient Fuel Charge revenue.

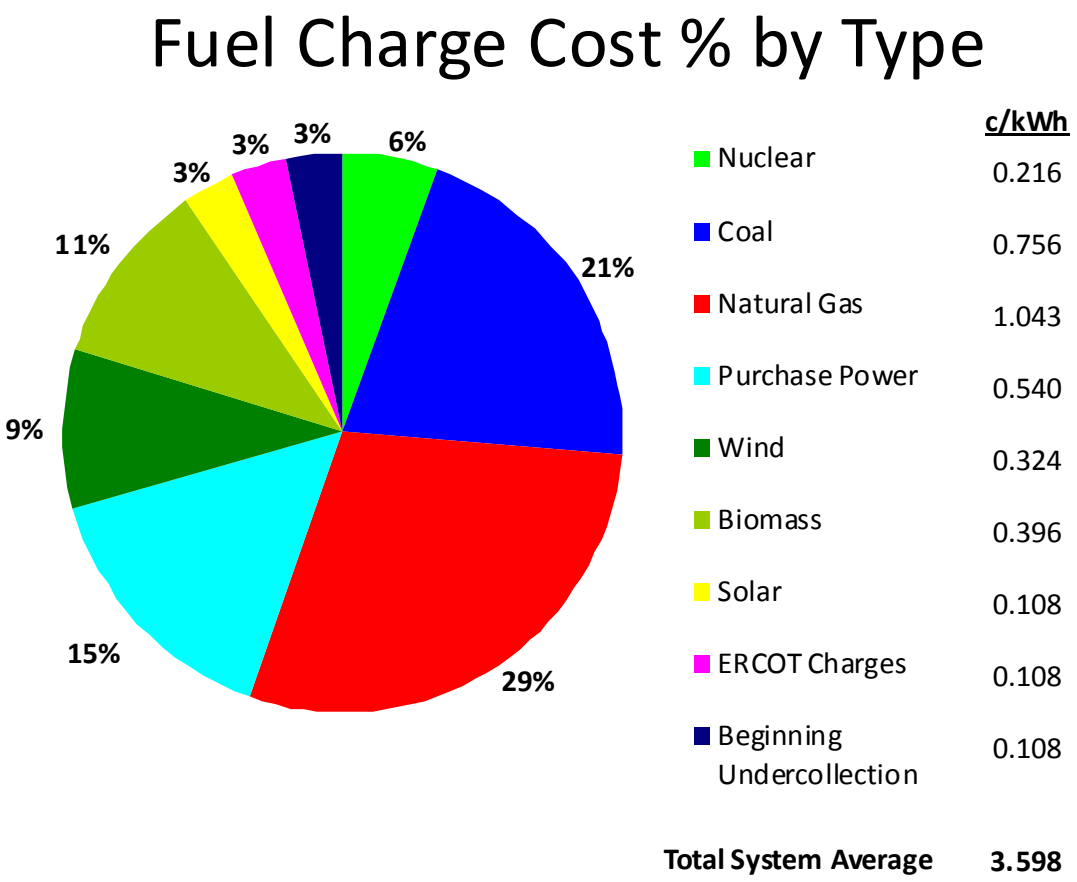
The second major contributor was a five-day unplanned outage of FPP Unit 2 (300 MW for Austin Energy) during the first week of August 2011. This required Austin Energy to purchase replacement power during a period of peak demand and peak market prices. In fact, during this time frame the market price for energy reached the ERCOT market cap of $3,000 per MWh for several hours on several days.

The third major contributor was an unplanned outage of STP Unit 2 (200 MW for Austin Energy) that began at the end of November 2011. Unlike the previous items, most of the expense of this on-going outage is projected to occur in 2012. While market prices during the expected replacement period are significantly lower than those seen last summer the replacement of STP's low fuel cost and baseload production results in a large cost impact to the Fuel Charge.

The combination of these events in 2011 and projected costs for 2012 required the 2012 Fuel Charge increase. The following chart indicates the unit costs of the components of the Fuel Charge:



The components of the 2012 Fuel Charge can be viewed in percentage terms based on the total contribution of each cost component:



Outlook For 2013

Austin Energy currently expects a 0% to 5% decrease for the 2013 Fuel Charge. The key drivers included in this forecast include:

- Similar or lower natural gas prices
- Addition of 291 MW of new wind power
- Full year of production from Nacogdoches Biomass plant
- No unplanned generator outages, no extension of the STP Unit 2 beyond expected time frame
- Normal Weather

If actual results deviate from these assumptions a different outcome for the 2013 Fuel Charge may occur.

ATTACHMENT

Fuel Adjustment Clause

Application
This clause is applicable to all City of Austin electric rates for which a Fuel Adjustment Clause (FAC) is prescribed.

The Fuel Rate is expressed by the following formula:

$$\text{Fuel Rate} = \frac{F + I}{S} + \frac{(E + T) - A}{S}$$

F is the estimated cost of fuels and related expenses, including refunds and the cost of purchased power for the 12 month period used to calculate the FAC for service-area sales.

I is 1) the estimated fees and charges from the Electric Reliability Council of Texas (ERCOT) Independent System Operator (ISO) incurred by the City of Austin when providing energy and capacity needed to meet its service-area obligations the 12 month period used to calculate the FAC; and 2) the estimated cost of the ERCOT ISO Administrative Fee for 12 month period used to calculate the FAC.

S is the estimated service-area sales of kWh for the 12 month period used to calculate the FAC.

E is the actual cost of fuels and related expenses, including refunds and the cost of purchased power, less any fuel costs for off system sales of energy for the latest 12 month period of data available.

T is 1) the actual fees and charges from the ERCOT ISO incurred by the City of Austin when providing energy and capacity needed to meet its service-area obligations; and 2) the actual Administrative Fee for the latest 12 month period of data available.

A is the actual cost recovered from service-area sales for the latest 12 month period of data available.

The fuel rate shall be effective January 1st, unless adjusted for over- or under-recovery.

If, at any time, there is more than a 10% over-recovery from the total projected fuel and purchased power costs for the 12 month period used to calculate those costs, the City of Austin shall initiate a review of the FAC to project whether the over-recovery will be within 10% for the remaining months of the 12 month period used to calculate those costs. If the review indicates an over-recovery of more than 10% for the remainder of the period, the City of Austin shall adjust the FAC for the next 12 months to eliminate the over-recovery.

If, at any time, there is more than a 10% projected under-recovery from the total projected fuel and purchased power costs for the 12 month period used to calculate those costs, the City of Austin will initiate a review of the FAC to project whether the under-recovery will be within 10% for the remaining months of the 12 month period used to calculate those costs. If the review indicates an under-recovery of more than 10% for the remainder of the period, the City of Austin may adjust the FAC for the next 12 months to eliminate the under-recovery.

Calculation
The Fuel Rate is multiplied by the following voltage level adjustment factors:
Secondary Multiplier: 1.004854
Primary Multiplier: .974939
Transmission Multiplier: .964826